

# **GOVERNMENT OPERATIONS AND AUDIT COMMITTEE**

## **Study Assignment**

The Government Operations and Audit Committee was established by South Dakota Codified Laws (SDCL) 2-6-2. The Committee is appointed at each regular session of the Legislature. The Committee consists of ten members, five members from the Senate appointed by the President Pro Tempore of the Senate, one of whom shall be a member of the Judiciary Committee and five members from the House appointed by the Speaker of the House, one of whom shall be a member of the Judiciary Committee.

The responsibilities of the Committee are:

- To inquire and review any phase of the operations and the fiscal affairs of any department, institution, board or agency of the state;
- To examine records and vouchers, summon witnesses, examine expenditures and the general management of departments, as deemed necessary;
- To review any findings of abuse or neglect in a juvenile corrections facility;
- To make a continuing study of the operation of the state's correctional system; and,
- To make a detailed report to the Senate and House of Representatives and submit a copy of its report to the Appropriations Committee of each House of the Legislature at the next succeeding session of the Legislature or any special session of the Legislature upon request of the body.

## **Committee Activity**

The Committee conducted the following review and study activities during 2003:

- Reviewed audit reports.
- Reviewed General Fund contract encumbrances.
- Reviewed contracts for selected state agencies.
- Reviewed the functions of selected state offices.

## **Summary of Interim**

### Reviewed Audit Reports

The Committee reviewed the South Dakota Single Audit Report for the fiscal year ended June 30, 2002 and separately issued audit reports issued during 2003.

The following summarizes the actions that were taken by the Committee.

Financial and compliance audits involve testing financial transactions of the state to determine that all money is properly accounted for and expended in accordance with state and federal laws and regulations. All audits conducted on state agencies were consolidated and reported in the Single Audit Report. The Single Audit Report includes the Comprehensive Annual Financial Report for the State of South Dakota prepared by the Bureau of Finance and Management, a schedule showing the federal awards administered by the state and related expenditures, and audit findings and recommendations issued by the Department of Legislative Audit.

The Single Audit Report was issued in accordance with Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards issued by Comptroller General of the United States and South Dakota Codified Laws. A copy of this report may be obtained from the Department of Legislative Audit.

The Committee reviewed financial reporting, internal control and compliance deficiencies written on 5 state organizations, containing 20 recommendations for corrective action. Two recommendations related to violations of state laws and regulations; eleven recommendations related to violations of federal laws and regulations; and, seven recommendations related to inadequate internal control procedures over receipts, revenue collections and expenditures and financial reporting.

The following represents the state agencies with audit findings and recommendations from fiscal years 2002 and 2001 and the implementation of fiscal year 2001 audit recommendations:

	RECOMMENDATIONS		
	<u>Fiscal Year 2002</u>	<u>Fiscal Year 2001</u>	<u>FY2001 Implemented</u>
Agriculture, Department of	0	1	1
Agriculture, Department of State Fair	0	1	1
Attorney General, Office of	0	2	2
Board of Regents			
School for the Deaf	0	6	6
Dakota State University	0	1	1
Commerce, Department of	0	1	N/A
Commerce, Department of, Licensing and Regulatory Boards & Commissions			
Electrical Commission	3	N/A*	N/A
Corrections, Department of	1	0	N/A
Education, Department of	0	1	1
Governor, Office of the	2	2	2
Health, Department of	0	2	2

	RECOMMENDATIONS		
	Fiscal Year <u>2002</u>	Fiscal Year <u>2001</u>	<u>FY2001 Implemented</u>
Human Services, Department of	0	1	1
Internal Service Funds	0	1	1
Military and Veterans Affairs, Department of	7	0	N/A
Social Services, Department of	7	5	0

N/A\* This audit is on a two-year audit cycle and did not have a FY 2001 audit.

The Committee sent letters to three state agencies with audit findings and encouraged the state agencies to implement the audit recommendations. The Committee requested a response from one state agency requesting an update on the actions taken to implement the audit recommendations. The Committee requested three state agencies with audit findings to attend the next committee meeting to discuss audit findings. The Committee requested the Department of Legislative Audit to obtain additional information on an audit finding for one state agency. The Committee continues to monitor the responses and corrective actions taken by state agencies.

#### Reviewed General Fund Contract Encumbrances

The Committee completed an extensive review of general fund contract encumbrances that were in effect during fiscal year 2003. The general fund contract encumbrances included thirteen fiscal year 2001 general fund budget carryovers totaling \$5,843,127.55 and forty fiscal year 2002 general fund budget carryovers totaling \$10,821,910.53. The Committee's main focus was on contract encumbrances that were not expended for a significant period of time after the date of encumbrance and encumbrances supported by contracts between two state agencies when the actual expenditures were made to private contractors. Representatives from the Bureau of Information and Telecommunications, Department of Agriculture, Department of Education and Department of Human Services provided testimony to the Committee relating to specific contract encumbrances.

The Committee also reviewed general fund contract carryovers that are in effect during fiscal year 2004. The general fund contract encumbrances include four fiscal year 2002 general fund budget carryovers totaling \$2,522,363.09 and sixteen general fund budget carryovers from fiscal years 2003 totaling \$15,056,159.07.

#### Reviewed Contracts for Selected State Agencies

The Committee heard testimony from the Bureau of Information and Telecommunications, Department of Corrections, Department of Social Services and Department of Education regarding consulting with total contract amounts exceeding \$100,000. The Committee also heard testimony from the Bureau of Administration, Bureau of Information and Telecommunications, Department of

Corrections and Department of Social Services regarding lease space contracts. The review covered 80 consulting contracts and 160 space lease contracts.

The Committee discussion focused on the number of consulting contracts with out-of-state consultants and whether there were qualified consultants in-state that could provide services. A second issue addressed by the Committee was the lack of competition in the process for awarding contracts.

The Bureau of Administration presented the Committee with an overview of the new Office of Procurement Management. This office is planning to review consulting contracts and create a database of vendors based on services they can provide. This would provide a list of vendors with specific skills and expertise that state agencies could use to obtain quotes for specific services.

The Committee believes the state should introduce some level of competition into the process of awarding consulting services contracts. This competition could be in the form of companies submitting proposals and the selection of the contractor without requiring a formal bidding process. The Committee does believe that competition is essential in ensuring that the State receives good value for its dollar.

The Committee recommended to the Commissioner of the Bureau of Administration that his agency coordinate with other state departments such as Transportation and Game, Fish and Parks to ensure that office space in the various cities of the State is leased in the most economical and effective way possible.

### Reviewed the Functions of Selected State Offices

#### STATE AUDITOR'S OFFICE

The State Auditor provided the Committee with background on his responsibility relating to maintaining a file of all consulting contracts. The State Auditor stated that there was a lack of consistency of information in consulting contracts documenting the basis for payment. The State Auditor's office is developing standardized contract requirements to ensure consistency and completeness of consulting contract terms.

#### STATE COMPTROLLER

The State Comptroller provided the Committee with an overview of his functions and projects he is working on. The State Comptroller's office has reviewed food service and legal consulting contracts. Some legal consulting contracts have been consolidated where multiple contracts required the same legal expertise. Other projects being reviewed are possible competition in awarding consulting contracts and reviewing contracts to determine if it would be more beneficial for

state employees to perform certain services with rather than contracting for services.

### Ongoing Activities

The Committee intends to continue to monitor and follow-up on issues it has identified concerning consulting contracts, space management leases and the role of the State Auditor in the accounting system and contracting processes of the state.

### Juvenile Corrections, Legislative Research Council

The Committee heard testimony from John Ellis, the Juvenile Corrections Monitor (JCM), a position created by SB141 in the 2000 Legislative session. He presented his semi-annual report detailing the complaints received at the state owned juvenile corrections facilities. The JCM must immediately notify the Governor, Department of Corrections Secretary, and the Government Operations and Audit Committee in writing of any substantiated abuse or neglect. From January 1 through June 30, 2003, the JCM received 145 complaints from students, parents, and other interested parties. Of the 145 complaints, only five resulted in a full investigative report. The monitor could not substantiate either abuse or neglect in any of the five cases.

### **Listing of Legislation Adopted**

None.

### **Summary of Meeting Date and Places and Listing of Committee Members**

The Committee met on June 24, 2003, July 30, 2003, and September 9, 2003, in LCR 1 and 2 in the State Capitol in Pierre. The Committee also held a conference call meeting on October 15, 2003.

Committee members were: Representative Ted A. Klaudt, Chair; Senator Marguerite Kleven, Vice Chair; Senators Arnold M. Brown, J.P. Duniphan, John Koskan, and Garry A. Moore; and Representatives Rebekah Craddock, Margaret V. Gillespie, Claire B. Konold, and Gerald Lange.

Staff members from Legislative Audit were Marty Guindon, Auditor General; Rich Hornak, Audit Manager; and Gary Hoscheid, Audit Manager. Staff member from Legislative Research Council was Annie Mehlhaff.